

OFFICE OF AUDITS AND COMPLIANCE

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Sacramento, CA 94283-0001



JUN 18 2008

Mary Weaver, Executive Director
Friends Outside in Los Angeles County
464 E. Walnut Street
Pasadena, CA 91101

Dear Ms. Weaver:

The California Department of Corrections and Rehabilitation's (CDCR), Office of Audits and Compliance, Audits Branch completed a fiscal contract compliance audit of contract numbers P06.3009 and P06.3013, between CDCR and Friends Outside in Los Angeles County (FOLAC). The audit covered the period of July 1, 2006 through June 30, 2007. The Audits Branch's fieldwork was conducted from March 25 through March 26, 2008.

Enclosed is a copy of the final audit report. This report includes your response received on May 12, 2008, and our comments to your response. If you wish to appeal the final audit report to the Administrative Review Committee, please submit your request in writing to me within 30 days from the date of this letter.

Should you have questions or require additional information regarding the contents of this report, please contact Timothy Adams, Supervising Management Auditor, OAC, at (916) 358-2625.

Sincerely,

A handwritten signature in blue ink, appearing to read "Richard C. Krupp". The signature is fluid and cursive, with a large initial "R" and "K".

RICHARD C. KRUPP, Ph.D.
Assistant Secretary
Office of Audits and Compliance

Enclosure

cc: Timothy Adams, Office of Audits and Compliance

Mary Weaver, Executive Director
Page 2

bcc: Sherwin Koyama, Parole Agent III, DAPO
Joe Ann Duroncelet, Parole Agent II, DAPO
Roy Chaney, District Administrator, DAPO
Maria Franco, District Administrator, DAPO
Derrick Ross, Parole Agent II, DAPO
Sheila Green-Beck, Parole Agent II, DAPO
Francis Cailles, Staff Management Auditor, OAC
My Nguyen, Staff Services Management Auditor, OAC
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CONTRACT COMPLIANCE AUDIT
FRIENDS OUTSIDE IN LOS ANGELES COUNTY



Prepared by:
California Department of Corrections and Rehabilitation
Office of Audits and Compliance

June 2008

FRIENDS OUTSIDE IN LOS ANGELES COUNTY

Contract Numbers P06.3009 and P06.3013

Office of Audits and Compliance
Timothy Adams, Supervising Management Auditor
Francis Cailles, Staff Management Auditor
My Nguyen, Staff Services Management Auditor

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OFFICE OF AUDITS AND COMPLIANCE

1515 S Street
P.O. Box 942883
Sacramento, CA 94283-0001



AUDITOR'S REPORT

Mary Weaver, Executive Director
Friends Outside in Los Angeles County
464 E. Walnut Street
Pasadena, CA 91101

Dear Ms. Weaver:

The California Department of Corrections and Rehabilitation's (CDCR) Office of Audits and Compliance, Audits Branch, conducted a fiscal contract compliance audit of contract numbers P06.3009 and P06.3013 between CDCR and Friends Outside in Los Angeles County (FOLAC).

Under the terms of the agreement, the contractor agreed to employ Community Resource Coordinators (CRC) for the Parole and Community Team (PACT) Program in the Eastern District and the South Coast District. The costs for these services were not to exceed the amount of \$154,272 per contract for the term beginning in July 1, 2006 through June 30, 2008.

Audits Branch conducted the audit in accordance with generally accepted governmental auditing standards, including tests of controls and other such auditing procedures considered necessary under the circumstances.

The scope of the audit was limited to financial compliance activities for the fiscal year (FY) 2006/07.

Audit fieldwork was conducted from February 25, 2008 through April 9, 2008.

The specific objectives of the audit were to determine:

- If FOLAC complied with the fiscal requirements and conditions of contract numbers P06.3009 and P06.3013;
- Whether payments made to FOLAC are for actual services rendered; and
- Whether amounts billed CDCR are allowable.

The procedures performed in the audit included:

- A review of fiscal policies and procedures to determine if contract terms established within contract numbers P06.3009 and P06.3013 were being met.
- A determination of whether FOLAC rendered the services required per contract numbers P06.3009 and P06.3013.
- A determination of whether amounts claimed for payment were for allowable and supported by appropriate source documentation.

The Audits Branch determined that FOLAC did not follow proper procedures in billing and hiring CRC. The questioned amount that FOLAC owes CDCR is summarized in Finding 1. Because the Audits Branch's audit was limited to selected test periods and fiscal transactions, the Audits Branch does not express an opinion on the contractor's internal controls or contract compliance as a whole.



RICHARD C. KRUPP, Ph.D.
Assistant Secretary
Office of Audits and Compliance

April 9, 2008 (last date of audit work)

EXECUTIVE SUMMARY

CDCR contracted with FOLAC under contract numbers P06.3009 and P06.3013 to employ CRC for the PACT Program in the Eastern District and the South Coast District. The Audits Branch performed a fiscal audit of FOLAC for the contract period of July 1, 2006 through June 30, 2007. The Audits Branch has determined that FOLAC did not follow proper procedures in billing and hiring CRC. The questioned amount is summarized in Finding 1 below, and is discussed in more detail in the Finding and Recommendation section of the report.

FINDING 1: FOLAC Billed CDCR for Unallowable Amounts

FOLAC owes CDCR \$84,909, which consists of \$46,635 for work performed without a CDCR clearance, and \$38,274 for periods without a CRC employed. It should be noted that according to the Parole Agents II who supervised the CRC, services have been satisfactorily rendered by all CRC, even those who did not have a CDCR clearance or received a CDCR clearance after commencing work.

FOLAC's Response:

FOLAC contends that they do not owe CDCR any compensation for work performed without a background clearance and for periods without a CRC employed, because they followed billing procedures specified in the contracts and written instructions from CDCR staff. FOLAC is also requesting reimbursement for time deducted for leave (i.e. vacation, sick, holiday, etc.) because the contract does not specify that leave time is not billable.

The Audits Branch's Comments:

The Audits Branch reduced the total questioned amount from \$84,909 to \$38,274.

After reviewing the additional information submitted by FOLAC with their response to the draft report, the Audits Branch was unable to determine the exact reason for the lack of CDCR clearances for some CRC. Therefore, the Audits Branch adjusted the questioned amount for work performed without a CDCR clearance to \$0.

FOLAC did not provide sufficient information for the Audits Branch to adjust the questioned amount for periods without a CRC employed. The Audits Branch recommends that FOLAC reimburse CDCR \$38,274.

SUMMARY OF QUESTIONED COSTS						
	Questioned amount for work performed w/out a CDCR Clearance		Questioned amount for periods w/out a CRC employed		Amount Owed CDCR	
	(A)		(B)		(A) + (B)	
Contract Numbers	Draft	Final	Draft	Final	Draft	Final
P06.3009	\$35,579	\$0	\$18,184	\$18,184	\$53,763	\$18,184
P06.3013	11,056	0	20,090	20,090	31,146	20,090
Totals	\$46,635	\$0	\$38,274	\$38,274	\$84,909	\$38,274

BACKGROUND

According to the California Penal Code, Section 3000 (a)(1), it is in the best interest of the State to supervise parolees to secure public safety and promote the successful integration of parolees into society. To achieve this objective, the CDCR Division of Adult Parole (DAPO), local law enforcement agencies, and community service providers have formed a partnership and established the PACT program to "advocate public safety, the timely exchange of information, parolee community programming, and the development of additional resources beneficial to offender reentry."

Through contract numbers P06.3009 and P06.3013, the FOLAC contracted with CDCR to provide CRC in the Eastern District and the South Coast District. FOLAC provides Parolee Orientation Meetings (POM) to parolees so that they can obtain counseling and information on resources available in the community. FOLAC also acts as a liaison to community based organizations and social service agencies participating in the POM. In addition, FOLAC is responsible for collecting data for DAPO on the participation and attendance of parolees at POM and their success/failure rate.

The DAPO has requested a review of FOLAC's compliance with the fiscal provisions of contract numbers P06.3009 and P06.3013.

FINDING AND RECOMMENDATION

FINDING 1: FOLAC Billed CDCR for Unallowable Amounts

FOLAC billed CDCR for periods with no CRC employed. In addition, there were CRC hired by FOLAC in FY 2006/07 that did not receive a CDCR clearance and/or commenced work prior to receiving a CDCR clearance.

To determine the actual allowable costs:

- The Audits Branch verified the CRC employment start and ends dates using the following sources: (a) timesheets, (b) the payroll/personnel files, and (c) the Parole Agents II. When a CRC start/end date varied from one source to another, the Audits Branch based the allowable amounts on the latest first work day and the earliest last work day.
- Payments for CRC without an approved security clearance were questioned. The portion of time that a CRC worked prior to receiving a CDCR clearance was also questioned.

In contract number P06.3009, CRC (A) and CRC (C) worked before receiving their CDCR clearance, and CRC (B) did not have a CDCR clearance. The allowable amounts for CRC (A) were for services rendered from August 24, 2006 through December 8, 2006, and CRC (C) were for services rendered from May 2, 2007 through June 29, 2007. Please see Table 1a.

In contract number P06.3013, CRC (D) and CRC (G) worked prior to receiving their CDCR clearance. Furthermore, CRC (E) and CRC (F) did not have a CDCR clearance. The allowable amounts for CRC (D) were for services rendered from August 24, 2006 through June 29, 2007. All services rendered by CRC (G) were questioned because the CDCR clearance was not approved until after FY 2006/07. Please see Table 1b.

TABLE 1a					
Contract #	CRC (A)	CRC (B)	CRC (C)	-	Allowable Amount
P06.3009	\$11,410	\$0	\$6,299	-	\$17,709

TABLE 1b					
Contract #	CRC (D)	CRC (E)	CRC (F)	CRC (G)	Allowable Amount
P06.3013	\$32,976	\$0	\$0	\$0	\$32,976

*Names were omitted for security and confidentiality. Specific details were provided to FOLAC.

The Audits Branch subtracted the allowable amount from the actual amount paid to FOLAC and determined that FOLAC owes CDCR \$84,909. This amount consists of \$46,635 for work performed without a CDCR clearance and \$38,274 for periods without a CRC employed. Please see Tables 2a and 2b.

TABLE 2a			
Contract Numbers	Amount Paid By CDCR	Allowable Amount	Amount Owed CDCR
	(A)	(B)	(A)-(B)
P06.3009	\$71,472	\$17,709	\$53,763
P06.3013	\$64,122	\$32,976	31,146
Total			\$84,909

TABLE 2b			
Contract Numbers	Questioned amount for work performed w/out a CDCR Clearance	Questioned amount for periods w/out a CRC employed	Total Amount Owed CDCR
	(A)	(B)	(A)+(B)
P06.3009	\$35,579	\$18,184	\$53,763
P06.3013	11,056	20,090	31,146
Totals	\$46,635	\$38,274	\$84,909

It should be noted that according to the Parole Agents II who supervised the CRC services have been satisfactorily rendered by all CRC, even those who did not have a CDCR clearance or received a CDCR clearance after commencing work.

Criteria:

Contract numbers P06.3009 and P06.3013 state: "For services satisfactorily rendered, and upon receipt and approval of contractor's invoices, the State agrees to compensate the Contractor for actual expenditures incurred in accordance with Exhibit B-1, bid proposal and the rates specified herein on Exhibit B-2, which are attached hereto and made a part of this agreement."

In addition, "Prior to commencement of services, all contracted staff hired as employees and all volunteers must be cleared through a CDCR background check. The CDCR will grant provisional clearances for all staff until such time as the formal background clearance is completed. All applicants will be subject to fingerprinting."

Recommendations:

Reimburse CDCR \$84,909.

Submit the appropriate documents specified in contract numbers P06.3009 and P03.3013 to obtain a CDCR clearance when employing CRC.

FOLAC'S Response:

FOLAC stated that they do not owe CDCR any amount for: (1) work performed without a background clearance, and (2) periods without a CRC employed because they followed billing procedures specified in the contracts and written instructions from CDCR staff.

According to FOLAC:

- DAPO had implicitly granted a provisional CDCR clearance by having DAPO staff participate in interviews and review resumes;
- DAPO implicitly acknowledged that services rendered were satisfactory by approving and paying the invoices;
- FOLAC submitted "Background Clearance Forms," but CDCR did not provide a response; and
- There are no contract criteria restricting FOLAC from billing for leave (i.e. vacation, sick, holiday, etc.); thus, the CDCR should reimburse FOLAC for time deducted.

The Audits Branch's Comments:

Work performed without a CDCR Clearance

After reviewing the additional information submitted by FOLAC with their response to the draft report, the Audits Branch was unable to determine the exact reason for the lack of CDCR clearances for some CRC. Therefore, the Audits Branch adjusted the questioned amount for work performed without a CDCR clearance to \$0.

	Questioned Amount For Work Performed W/Out A CDCR Clearance	Questioned Amount For Work Performed W/Out A CDCR Clearance
Contract Numbers	Draft Report	Final Report
P06.3009	\$35,579	\$0
P06.3013	11,056	0
Totals	\$46,635	\$0

Periods without a CRC employed

The Audits Branch did not adjust the questioned amount for periods without a CRC employed.

The Bid Rate Sheets in contract numbers P06.3013 and P06.3009 specifically require two full-time CRC for each contract. The contract defines "full-time" as a 5 day 40 hour workweek. This means that each contract has to have two full-time CRC, with each employee performing CRC duties 40 hours per week.

As clearly indicated in the contracts' Bid Rate Sheets, the basis for contract award, billing, and payment is the number of actual full-time CRC, multiplied by FOLAC's bid rate of \$3,214 per month. Therefore, the Audits Branch allowed payments only for the number of full-time CRC positions that were filled. In addition, the Audits Branch disallowed FOLAC's billings for hours worked by FOLAC's Accounting Staff and the Executive Director because (1) they were not CRC, and (2) they did not perform the duties of a CRC.

The Audits Branch concurs with FOLAC's contention that nothing in the contract prohibits them from billing for CRC's leave time. The Audits Branch did not disallow amounts for leave time taken by CRCs.

The Audits Branch recommends that FOLAC reimburse CDCR \$38,274 for periods without a CRC employed.

REVISED QUESTIONED AMOUNTS						
	Questioned amount for work performed w/out a CDCR Clearance		Questioned amount for periods w/out a CRC employed		Amount Owed CDCR	
	(A)		(B)		(A) + (B)	
Contract Numbers	Draft	Final	Draft	Final	Draft	Final
P06.3009	\$35,579	\$0	\$18,184	\$18,184	\$53,763	\$18,184
P06.3013	11,056	0	20,090	20,090	31,146	20,090
Totals	\$46,635	\$0	\$38,274	\$38,274	\$84,909	\$38,274

GLOSSARY

CDCR	California Department of Corrections and Rehabilitation
CRC	Community Resource Coordinators
DAPO	Division of Adult Parole Operations
FOLAC	Friends Outside in Los Angeles County
FY	Fiscal Year
PACT	Parole and Community Team Program
POM	Parolee Orientation Meetings



"Breaking the Cycle of Incarceration"

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May 9, 2008

Richard Krupp, Ph.D.
Assistant Secretary
California Department of Corrections and Rehabilitation
Office of Audits and Compliance
1940 Alabama Avenue
Rancho Cordova, CA 95742

Dear Dr. Krupp:

We are writing in response to the Preliminary Report which was issued in April, 2008.

Background of Situation Leading to Audit

We have two two-year "PACT" contracts with the California Department of Corrections and Rehabilitation (CDCR), Contracts # PO6.3009 and #PO6.3013. The contracts are identical with the exception of the geographic area being served; both have start dates of July 1, 2006. A fire on Father's Day (June 18, 2006) in the church in which our administrative office in Pasadena is located left us without use of our office and without access to our paper-based records and computers for about two months. In spite of these challenges, we made numerous efforts to obtain clarification and guidance so we could manage the contracts responsibly. As you will see from the evidence we are presenting, the contracts were often poorly handled by CDCR. Ambiguous contract language, frequent changes in staff, poor communication, and conflicting and shifting directions from CDCR when we attempted to obtain clarity made the contracts very difficult to administer, especially in the first year of the contracts. These inadequacies on the part of CDCR were responsible for the findings by your office. It was only because of our persistence in requesting meaningful guidance that the audit was conducted.

Pre-contract activities

We did not find out about this funding opportunity until after the Bidder's Conference which was not a mandatory activity for bidders. Therefore, we were able to submit bids but did not benefit by any of the information that was provided during the conference. The only written information we had for managing the contracts were the "Information for Bid" and "Contract Agreement." These documents have very little information about Screening/Background Checks and the

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billing/invoicing process. Moreover, the information in the Contract Agreement is vague and ambiguous. There was no training or handbook provided by CDCR for new contractors.

From the beginning, communication from CDCR was often careless. One of our first problems was to clarify with CDCR that we had not bid on the contract for Santa Rosa County, even though we had received word that we had been awarded that contract (*please see Exhibit #1*). This contract change was made via a telephone call and noted informally in a subsequent fax from CDCR (*please see Exhibit #2*). We also received an Award Letter that was meant for a Mr. Welch at Heaven's Gate Enterprises in Hayward (*please see Exhibit #3*).

ISSUE NO. 1: SCREENING/BACKGROUND CHECKS/CDCR CLEARANCE

Process Described in the Contract

According to the Contract Agreement, "The Contractor must provide any/all resumes of prospective CRC's, including the Contractor's actual candidate selected, to the DAPO two weeks prior to the commencement of services to ensure all proper background clearance are met and completed (*please see Exhibit #4*)."

This language states that the Contractor has complied with the background clearance process upon providing the DAPO with the resume of the selected candidate(s). It further implies that the DAPO will follow through with the other necessary steps. We complied with this Contract Agreement provision in that the DAPO, or his/her designee, participated in interviews of all of our candidates, at which time they were provided with copies of the candidates' resumes (*please see Exhibit #5*). No candidate was hired without the approval of the DAPO, or his/her designee.

Moreover, and most importantly, as per the contract agreement, page 6, Section I, all contracted staff were covered in the meantime by Provisional Clearances, "that will be provided to all staff until such time as the formal background clearance is completed" (emphasis added).

Although the contract agreement refers to "CRC Clearance Procedures" and a "CDCR background check" (page 6, Section I), it does not clarify what the term "CDCR background check" means, what comprises "CRC Clearance Procedures," the forms that are required to attain a clearance, nor the means by which CDCR will notify contractors (phone calls, emails, fax, hard copy) whether a person had been cleared. The form we were later instructed by staff to utilize in order to attain a clearance is entitled "Division of Adult Parole Operations, Parole and Community Team Applicant's Authorization to Conduct Security Clearance Investigation" but, in an email (*please see Exhibit #6*), Mr. Lucas referred to this form as the "CRC Application/Release Form."

Instructions from Staff

The first record we have of communication regarding contract management was from the PACT Program Manager, Randy Lucas. It arrived in the form of an email dated July 25, 2006, almost one month after the contract began (*please reference Exhibit #6*). In his email, Mr. Lucas states that many people were familiar with the screening/background check process, adding this message for those of us who were not:

"I am including the CRC Application/Release Form which must be completed by the CRC and then mailed to me along with their Resume for acceptance (meeting Minium (sic) Qualifications) and security process."

In a subsequent email of August 8, 2006 (*please see Exhibit #7*), Mr. Lucas states "Dear Contractor's (sic); This reminder is being sent out regarding the Security Clearances for your **NEW** CRC's that have recently been hired and **NOT** previously been cleared. Please submit those that need to be cleared through the Security Clearance Process."

In this email, Mr. Lucas acknowledges that some CRC's may already have been hired without yet having been cleared but does not state there is something wrong with this process, presumably because the process began when the resumes were given to the DAPO's and because the Provisional Clearances were in place.

Another email from Mr. Lucas on August 8, 2006 states (*please see Exhibit #8*), "There has been some confusion regarding what needs to be supplied. I would refer you to your individual contracts for review under the Sections identified below and can be found on pages 5 & 6."

On August 23, 2006, I emailed Mr. Lucas as follows (*please see Exhibit #9*), "what would happen if I hired her and then you determined that she was not qualified?" Mr. Lucas' response was as follows, "I would send you a failure to meet the qualifications (for whatever the reason was). With that she would not be able to be employed with your firm."

We never received a "failure to meet the qualifications" for any of our applicants, and are not even sure what this would have been (i.e., phone call, letter, form), adding to the confusion about the screening/background check process, the paperwork that is involved, and the notification process. During the contract period, we have received notification that applicants passed their background checks via email, fax, hard copy via U.S. mail, and over the phone (*please see Exhibit #10*).

When Agent Duroncelet became the Program Manager in 2007, she began to ask for Live Scans for some applicants (*please see Exhibit #11*) and then eventually began to ask for Live Scans from all applicants, in addition to information, such as job applications and copies of Social Security Cards, that had never been requested previously and which are not mentioned in the Contract Agreement as documents which are required for the security clearance.

The screening/background checks process was unclear, inconsistent and substandard at CDCR's end. The Contract Agreement language was ambiguous, the documents which contractors were to provide to CDCR in order to obtain a security clearance were moving targets, and the means by which we were notified of the status of a security clearance was unclear. We usually learned of procedural changes via emails that responded to individual questions. Guidelines shifted, seemingly when CDCR staffing changed and/or as CDCR made new decisions regarding what they wanted from their contractors. We always complied with the changing guidelines we were given and responded to the requests for information which DAPO/CDCR made. DAPO/CDCR never gave us any reason to believe we were not in compliance with the Contract Agreement.

CDCR's Handling of Paperwork

In addition to vague and conflicting instructions, the screening/background checks process was exacerbated by CDCR's handling of paperwork. On March 12, 2007, we received an email informing us that Teresa Gomes Morales and Perry Glen Williams, Jr. had received security clearances (*please see Exhibit #12*). Ms. Morales was not one of our job candidates. It is unknown whether Ms. Morales' employer ever learned that she had been cleared.

Perry Williams was hired on February 5, 2007, and, according to the aforementioned email, moved from a Provisional Clearance to a "formal" clearance on March 12, 2007. On April 27, 2007, Agent Duroncelet emailed us as follows, "I was not aware that Perry Williams had been cleared because I just received his application request. I assumed this position on 3/19/07 and am trying to clear out pending applicants and invoices. Can you please fax me a copy of the clearance letter that was issued? I have nothing in our files showing that he was cleared. If you have the clearance letter, great! I can file his application away." (A subsequent email to Agent Duroncelet indicates that we complied with her request the next day). In other words, we had to provide CDCR with Mr. Williams' application paperwork, including the background check approval that CDCR had sent to us six weeks earlier, on March 12, 2007, because Ms. Duroncelet could not find it in CDCR's files (*please see Exhibit #13*). Her request also implied that CDCR was reviewing the "pending applicants" (whom we thought of as those staff who were working under Provisional Clearances but who had not yet been "formally" cleared) and letting us know of staff for whom CDCR had incomplete paperwork. Temeka Jordan and Leticia Rangel had been hired by this date. Why were we not informed at this time that CDCR did not have copies of their paperwork?

Our Position:

We were able to provide copies of the "Division of Adult Parole Operations, Parole and Community Team Applicant's Authorization to Conduct Security Clearance Investigation" (henceforth "Background Clearance Form") for Temeka Jordan, Leticia Rangel, and Maritania Bragg when the Auditors were here (*please see Exhibit #14*), and are sure they were mailed to CDCR in a timely fashion. We discovered a Fax Cover Sheet that was sent to Liz Olmstead on December 5, 2006 (*please see Exhibit #15*) which indicates that five pages were faxed "as per our conversation." Our phone records of that time period (*please see Exhibit #16*) indicate that a fax was sent to Ms. Olmstead's fax number on that day. While there is no memo on the Fax Cover Sheet, we are certain we faxed Mr. Jordan's and Ms. Rangel's Background Clearance Forms at this time, possibly at the request of Ms. Olmstead. The timeframe would have been about right because both women had been hired within the previous few weeks (Jordan on October 30, 2006; Rangel on November 27, 2006). The number of pages would also have been correct. Each Background Clearance Form would have been two pages (front and back) and these, along with the one-page Fax Cover Sheet, would account for a fax of five pages. We believe CDCR lost the Background Clearance Forms for the individuals in question or filed them incorrectly, just as they apparently did with the paperwork for Mr. Williams. (Another possibility regarding the missing Background Clearance Forms is explicated in the section below, entitled "Miscellaneous Factors").

We do not have a copy of Mr. McGuire's background form but the contract did not specify that we were required to keep one. However, an email of May 20, 2007, suggests that a meeting was scheduled to conduct this activity (*please see Exhibit #17*).

While we did not have the foresight to maintain evidence that Background Clearance Forms were mailed to CDCR, CDCR was well-aware of the employment of all CRC's in question. We sent timesheets for all staff (Temeka Jordan, Leticia Rangel, Todd McGuire, Maritania Bragg) after a request that timesheets be submitted along with the invoices was made by CDCR staff in about January, 2007. The District Administrators were included in the interviews during which the CRC's were hired and were given at that time resumes for all staff who were hired (as per the Contract Agreement), Parole Agent II's (PA II's) directly supervised the CRC's who worked in the CDCR offices on a daily basis, usually for the entire workday. Although it was not required, we asked the Parole Agent II's to sign-off on the CRC's hours whenever they were available to do so. Ms. Jordan's direct supervisor (Agent Paul Labbe) not only signed-off on her timesheets but also expressed great satisfaction with her performance (*please see Exhibit #18*). In signing our invoices, the DAPO's verified that "satisfactory service was provided in accordance with the above contract (*please see Exhibit #19*)," which, as will be discussed later, were the terms we were to meet in order to bill, as per the Contract Agreement.

The contract states the following, "The DAPO, under the jurisdiction of CDCR, is responsible for the execution and oversight of this contract (Contract Agreement, page 3, Section C). Thus, it was not our responsibility and we are not responsible for the fact that it took DAPO/CDCR upwards of 20 months to realize their files were deficient. Most importantly, the Contract Agreement clearly states that a "Provisional Clearance will be provided until such time as the formal background clearance is completed" (emphasis added).

Therefore:

- Whereas we complied with the background clearance process upon submission of resumes to the DAPO as per the Contract Agreement,
- Whereas "Background Clearance Forms," which were subsequently requested by Mr. Lucas (but not mentioned in the Contract Agreement), were sent to CDCR,
- Whereas CDCR could not find the Background Clearance Form they themselves had processed and forwarded to us for at least one employee,
- Whereas Provisional Clearances were in place for all staff as per the Contract Agreement,
- Whereas the DAPO participated in the interviewing and selection process of the employees in question, the Parole Agent II's supervised the employees in question, the employees in question worked in the CDCR's facilities, timesheets for all employees in question were provided to CDCR in a timely fashion (frequently with CDCR staff's signatures), and the CRCs' work was deemed to be satisfactory as per the invoices which were verified by the DAPO's signature,

We do not owe the State any compensation for work performed by the staff in question (Preliminary Audit Report, page 4, Table 2b, Column A). All costs were allowable costs because we followed CDCR's written procedures and Contract Agreement instructions with regards to Background Checks/CDCR Clearances.

ISSUE NO. 2: BILLING

A. Justification to bill in full each month between July 1, 2006 – December 31, 2006

We had very little on which to base our billing but acted pursuant to the information in the Contract Agreement and the written staff instructions we received, as follows:

- (a) Contract: The contract states, "For services satisfactorily rendered, and upon receipt and approval of contractor's invoices, the State agrees to compensate the Contractor for actual expenditures incurred in accordance with . . . " (emphasis added). (Contract Agreement, Exhibit B, *please see Exhibit #20*).
 - All of our invoices were signed by the District Administrators who verified that "satisfactory service was provided in accordance with the above contract."
 - Even during the months when we were not fully staffed, we incurred "actual expenditures" (e.g., Executive Director's and Contract Compliance Officer's time to advertise for and interview staff, telecommunications, mileage, classified ads, photocopying).
- (b) Invoice: The invoice asks only for the number of positions multiplied by the monthly salary (*please reference Exhibit # 19*) in order to arrive at the invoice amount. No place on the invoice (or in the Contract Agreement) were we asked to make a connection between the number of hours worked and the amount of the invoice. Furthermore, no one informed us that were to do so.
- (c) Staff Instructions: We understand our responsibility as a contractor to request clarification of the contract, and did so on many occasions. On August 8, 2006, we sent an email to Mr. Lucas in which we ask, "Are we able to get paid for this start-up period, or are we only able to bill once the staff has been hired?" His response on August 9, 2006, was the following, "As to the billing, has Friends Outside been servicing the Orientation meetings? If so then yes you may submit an invoice for July to me. If not, I would need to refer you to Ms. Gina Banks in our contract section." (*please see Exhibit #21*). Because CRC's Danielle Hill (Long Beach) and Armando Lopez (Pasadena) conducted all the Orientation meetings in their respective Districts as of their date of hire (August 14, 2006), we are justified in billing in full for the months of August through December, based on Mr. Lucas' instructions.

In addition, we do not have a record of any communications from Ms. Banks, unless it was telephonically conducted, in which case we do not remember the content of the conversation. However, we asked Ms. Olmstead in an email of September 13, 2006 how to bill during the period when we were not fully staffed (*please see Exhibit #22*). We have no evidence of an emailed response to our question. However, in an email of September 26, 2006, we informed Ms. Franco and Mr. Chaney (the District Administrators for the contract) of the following, "I have been meaning to let you know that I spoke with a person in Sacramento (sorry, I forget the name) but they said it would be all right to bill for July and August at the full rate, so I submitted the invoices you both signed" (*please see Exhibit #23*).

We proceeded billing in this fashion until about January of 2007 when Sara Sexton from CDCR made a request that timesheets should be submitted along with the

invoices, as of December, 2007. This did not make sense to us because we did not know there was a direct relationship between the number of hours worked and the amount of the invoice. When asked what we should do about the first six months of the contract (July – December, 2006) with regards to timesheets, Ms. Sexton stated during a telephone call, “Just keep a written record of what you did.” Just as requested, we obtained and maintained timesheets for this period which the Auditors requested and we provided when they conducted the audit.

As set forth above, by this time (January, 2007), we had now been given four different instructions on how to bill: (1) “if the Orientations were serviced,” (2) “we could bill in full even when not fully staffed,” (3) “keep records of what you did,” and (4) “bill only for the number of hours worked.” Because of these changing instructions, we remained concerned whether we were doing things correctly, and continued to push for clarification. We emailed Ms. Sexton on April 23, 2007 (*please see Exhibit #24*). A second email on June 27, 2007 sought clarification for the July – November, 2006 invoices. We even contacted a colleague who is retired from the contracts division of CDCR, who read the contract, thought it ambiguous, and suggested we push for clarity. Eventually, we were referred to Agent Duroncelet on June 27, and heard back from her on July 23 (*please see Exhibit #25*), culminating finally in the meeting with Agent Duroncelet and Mr. Tucker, District Administrator, in the Pasadena parole office.

B. Period after which Timesheets were Requested (approximately January 1 – June 30, 2007)

The billing procedures changed dramatically when we were informed in approximately January, 2007 that as of December, 2006, we had to bill based on an hourly rate, supported by timesheets. CDCR inquired why we had billed for days of leave (e.g., vacation, sick, personal) and stated that we could not do so. Because the contract states that we can bill for “actual expenditures,” we also submitted timesheets for our administrative time. Contrary to the terms of the Contract Agreement, we were then told that we could not do this either. Ultimately, and again contrary to the expressed terms in the Contract Agreement, we were told that we could bill only for time spent by the CRC’s for hours during which work was actually performed (i.e., when they were not on leave).

Once this was made clearer, we had to determine our billing rate per hour. Initially, we came up with a rate that was based on the number of possible work hours in one year divided by twelve. This left us at with a shortfall for months in which there was a larger number of working hours than during an average month. Eventually (in July, 2007), we were informed that we could determine the hourly rate on a per month basis by determining the number of working days for that particular month divided by the billing rate. Hours were spent on this task, with little meaningful direction or assistance from CDCR. We believe written guidelines should have been provided in the contract and supported by an appropriate invoice format.

No place in the contract or in any other documentation does it state that we cannot bill for vacation, sick, personal, or other leave days, for administrative time spent on the contract, or for other expenses connected with contract implementation. And, the invoice does not state that staff hours spent on vacation, sick, personal or leave days must be subtracted from the amount of the invoice. Thus, we are at a loss to understand why money was deleted from our billings.

Response to the Email from My Nguyen of April 4, 2008:

We dispute Attachments A, B, C as follows:

Attachment A: Date of CDCR Clearance is incorrect because resumes had been provided to the DAPO's and Provisional Clearances were in place as per the Contract Agreement. Moreover, we received Perry Williams' "formal" clearance on March 12.

Attachment B/C: We dispute the calculations based on the Clearance Dates, as per the statement above regarding "Attachment A."

Additionally, there is no back-up provided for the "Disallowed amount for periods w/out a CRC employed," so we have no basis on which to respond.

Our Position:

Even though we originally believed as you alleged that we had "over-billed," after going through this process, which included the review of many old documents and emails, we came to the realization that we were in fact justified for billing as we did.

Therefore,

- Whereas we submitted billings based on the language of the Contract Agreement and the Invoice form,
- Whereas we submitted billings based on written instructions by CDCR staff,
- Whereas our CRC's covered PACT Orientations during the months of August – December, 2006, and the DAPO's verified that "satisfactory service was provided in accordance with the contract,"
- Whereas, there is no language in the Contract Amendment or on the Invoice form that states we cannot bill for staff leave hours, administrative time spent on the contract, or other expenses related to the implementation of the contract,

We do not owe the State any compensation for work performed during "periods without a CRC employed." (Preliminary Audit Report, page 4, Table 2b, Column B). All costs were allowable costs (i.e., "actual expenditures") because we followed the Contract Agreement instructions and staff's written instructions with regards to billing. Furthermore, based on our review, we are owed money from CDCR for the staff leave hours which have been reduced from our billings of January – June, 2007 because these deductions are not explained in the Contract Agreement.

MISCELLANEOUS FACTORS

A. CDCR Staffing of PACT

CDCR's staffing for the PACT program changed four times during the first 10 months of the contract. Such changes were not always announced in any kind of official capacity or in a timely manner, making it difficult to discern who was overseeing contract activities.

Our email records indicate the following staffing changes:

<u>Date of Communication</u>	<u>Name of Contact</u>
July 25, 2006	Randy Lucas (please see Exhibit #26)
August 29, 2006	Temporary Change to Elizabeth Olmstead through 9/25/06 (please see Exhibit #27)
December 5, 2006	Notification that Mr. Lucas was no longer with the program We could not find evidence that we received a notice that he returned on 9/26/06 (please see Exhibit #28)
April 26, 2007	Joe Ann Duroncelet (please see Exhibit #29) This official notification was dated April 26, 2007 even though she had informed us in a different email (please reference Exhibit #13) that she "assumed the position on March 19"

B. Lack of Guidance Regarding Responsibilities of CDCR Staff

Never were we provided with a list of CDCR staff or guidelines regarding who in the Department (e.g., PACT Program Manager, District Administrator) was responsible for which decision or whom to contact with specific concerns. For example, the contract requests that two PACT meetings should be held per office per month. Contractors are not in a position to force that the meetings occur, so we left this unchallenged, assuming that the District Administrators would advise us when they were ready for our CRC's assistance. Agent Duroncelet asked about this when she became the Program Manager, talked with the District Administrators, Roy Chaney and Maria Franco, and ultimately issued approval to continue with the existing number of meetings per District. We finally learned through trial and error that such questions should be raised in emails sent to several persons, both in Sacramento and in the District, and that we should "cover" ourselves by including everyone in the chain of command. However, the lines of authority remain hazy and we remain uncertain as to who makes which decisions (e.g., what can the District Administrator decide; what can the PACT Program Manager decide) and how we will be advised when a decision is final – will we receive an email, an official letter?

C. Poor Communication

Furthermore, communication was often difficult or slow. On June 27, 2007, we sent an email to Sara Sexton in which we state, "We have been trying to get a hold of Joe Ann

Duronclet with a couple of program question" (*please see Exhibit #30*). A second example was in March, 2008. (Although this is outside of the audit period, the situation is indicative of the communication challenges we have faced). Our CRC for Long Beach mentioned to us that the District Administrator for Pasadena was changing, a staffing change of which it was important for us to be aware because this person is responsible for signing invoices and helping to interview candidates for the CRC position. After sending at least two emails to the District Administrator over a period of a week, Ms. Franco emailed us, without answering our question, that we "could pick up the telephone and ask." (We had emailed her on purpose, having learned the lesson of getting everything in writing). (*Please see Exhibit #31*).

D. Impact of Staffing Changes and Notification of Staffing Changes

As set forth above, this chronology of staffing changes and CDCR's failure to keep us current with regards to who was in charge most likely contributed to CDCR's missing Background Clearance Forms. Mr. Lucas sent us a form (the "Division of Adult Parole Operations, Parole and Community Team Applicant's Authorization to Conduct Security Clearance Investigation") shortly after the contracts began. This form has the following instructions: (*please see Exhibit #32*):

After completing, please return to:
Department of Corr. And Rehab.
Division of Adult Parole Operations
1515 "S" Street, Room 212N
Sacramento, CA 94283-0001
Attn: PA II Randy Lucas
Parole and Community Team

We never received timely notice of Mr. Lucas' departure from this position, much less a revised form with the new name of the person who should receive the form. Thus, we were never informed or instructed for several months into the contract that we should send the form to anyone other than Mr. Lucas.

E. Lack of Training and Contract Coordination

There did not appear to be any training of the local CDCR staff with regards to contract implementation, nor were there any visible efforts made on their part to coordinate the contracts, even though the "co-supervision" nature of the CRC staff affected us significantly as the employer of record of the CRC's. It was left to us to initiate such meetings (*please see Exhibits #33 and #34*), and we frequently did so even without being informed who would be the appropriate person(s) with whom to communicate regarding the problems that arose.

If you require any additional information, please do not hesitate to contact us.

Sincerely,


Mary Weaver
Executive Director